

## Message Text

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ACTION EB-07

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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 7296

INFO AMCONSUL CALI

AMCONSUL MEDDLLIN

C O N F I D E N T I A L BOGOTA 1876

E.O. 11652: GDS

TAGS: EINV, EFIN, CO

SUBJECT: GOC DECREE ON FOREIGN BANK NATIONALIZATION

REF BOGOTA 1790

1. FINANCIAL SECTOR REACTION TO THE NEW GOC DECREE RELATING TO NATIONALIZATION OF FOREIGN BANKS HAS BEEN ALMOST UNIFORMLY NEGATIVE AS EXPECTED. IN ADDTION TO OBVIOUS ADVERSE REACTION BY SIX FOREIGN BANKS AFFECTED BY DECREE, RESTO OF FINANCIAL SECTOR IS CONCERNED THAT NATIONALIZATION MAY BE ONLY FIRST STEP LEADING TO ADDITIONAL RESTRICTIONS AND STATE PARTICIPATION IN BANKING OPERATIONS. MANY OBSERVERS ALSO FEAR THAT MOVE ON BANKS WILL BE FOLLOWED BY OTHER NATIONALISTIC MEASURES AFFECTING FOREIGN INVESTMENT IN A NUMBER OF SECTORS OF THE ECONOMY.

2. SIX FOREIGN BANKS AFFECTED BY NEW DECREE ARE FIRST NATIONAL CITY, BANK OF AMERICA, BANK OF LONDON, ROYAL BANK OF CANADA, BANCO FRANCEW E ITALIANO, AND BANCO FRANCO COLOMBIANO. RECENTLY AUTHORIZED ESTABLISHMENT OF BANCO REAL DE BRAZIL, IN EXCHANGE FOR BRAZILIAN OPERATION OF BANCO CAFETERO, WILL NOT BE AFFECTED SINCE IT IS A

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STATE-OWNED (MINAS GERAIS) FIRM. IN MEETING OF BANKING

ASSOCIATION FEB 25 ALL OF ABOVE INDICATED THAT THEY ARE NOT IMMEDIATELY DISPOSED TO ACCEPT DIVESTITURE, ALTHOUGH THEY ARE OF COURSE WILLING TO DISCUSS MATTER WITH GOC. BANK OF AMERICA, FIRST NATIONAL CITY, AND ROYAL BANK HAVE APPARENTLY NEVER ACCEPTED DIVESTITURE IN OTHER COUNTRY OPERATIONS AND NO REASON EXISTS TO EXPECT A CHANGE IN POLICY WITH COLOMBIAN SITUATION.

3. REPRESENTATIVES OF FOREIGN BANKS WITH MINORITY POSOTIION IN COLOMBIA ARE CONCERNED THAT IF PRESENT NATIONALIZATION EFFORT IS SUCCESSFUL, NEXT STEP COULD BE REDUCTION TO PERHAPS 20 PERCENT RATHER THAN 49 PERCENT, OR RESTRICTIONS ON NEW CAPITAL INFLOWS AND OTHER MEASURES REDUCING THEIR PRESENT SCOPE OF ACTIVITY. COLOMBIAN BANKERS FEAR THAT, IN ADDITION TO ADVERSE IMPACT ON FOREIGN CAPITAL FLOWS AND DIVERSION OF INVESTMENT FUNDS FROM OTHER SECTORS FOR PURCHASE OF FOREIGN EQUITY, PRESENT MOVE MAY OPEN DOOR TO RESTRICTIONS ON DOMESTIC BANKING AS WELL-SPECIFICALLY GREATER OFFICIAL PARTICIPATION IN THE SECTOR.

4. AS SUGGESTED IN REFTTEL NEW DECREE IS CONSIDERED BY ALL INVOLVED PARTIES NOT TO CARRY FORCE OF LAW BUT DESIGNED AS A MEANS OF PERSUASION. BANKING SOURCES NOTE, HOWEVER, THAT GOC HAS ADDITIONAL WEAPONS TO USE IN SUCH PERSUASION EFFORTS, INCLUDING ADJUSTMENTS IN DEPOSIT STRUCTURES, FORCED INVESTMENTS, CAPITAL FLOWS, ETC. WHICH COULD MAKE LIFE DIFFICULT FOR FOREIGN BANKS EVEN WITHOUT LEGISLATION. IT IS GENREALLY CONCEDED THAT CONFRESSIONAL ACTION ON NEW LEGISLATION WOULD NOT BE DIFFICULT TO OBTAIN, BUT THAT THE ADMINISTRATION MIGHT NOT BE ABLE TO CONTROL EXCESSIVE NATIONALISTIC FORCES IF IT WERE TO PRESENT A BILL TO CONGRESS.

5. A NUMBER OF SOURCES FEAR THAT THE PRESENT MOVE ON FOREIGN BANKS IS THE PRELUDE TO NATIONALISTIC MEASURES AIMED AT RESTRICTING FOREIGN INVESTMENT ACTIVITIES IN OTHER SECTORS OF THE ECONOMY. AREAS SUGGESTED AS POSSIBLY SUBJECT TO MORE STRINGENT REGULATIONS ARE FOOD PROCESSING, CHEMICALS, TIRES, AND AUTOMOBILES. WHILE PRESIDENT LOPEZ IS GENERALLY VIEWED AS A PROPONENT OF CONFIDENTIAL

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SLIGHTLY GREATER NATIONALISM THAN HAS TRADITIONALLY BEEN THE CASE IN COLOMBIA, THE PRINCIPAL MOVING FORCES IN SUCH MEASURES ARE EXPECTED TO BE MINISTER OF FIANCNE BOTERO AND PLANNING DIRECTOR URRUTIA. THESE TWO OFFICIALS WORK CLOSELY TOGETHER AND SINCE THE BEGINNING OF THE LOPEZ ADMINISTRATION HAVE PLAYED DECISIVE ROLES IN FORMULATION OF ECONOMIC POLICY.

6. REGARDLESS OF WHETHER OR NOT GOC ADOPTS ADDITIONAL  
RESTRICTIVE POLICIES IN FUTURE, THE FACT THAT IT HAS  
SUDDENLY AND WITHOUT PRIOR CONSULTATION CHANGED INVESTMENT  
RULES CANNOT HELP BUT DIMINISH FOREIGN (AND PERHAPS  
EVEN DOMESTIC) INVESTOR CONFIDENCE IN COLOMBIA.  
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